Testimony
of
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on
General Farm Commodities and Risk Management

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Good afternoon. Mr. Chairman, Members of the Committee, I first want to thank you for traveling to Texas and conducting this important field hearing. I also appreciate the opportunity to appear before you on behalf of the Corn Producers Association of Texas and the National Corn Growers Association (NCGA). I am Dee Vaughan, a corn, soybean, sorghum, and wheat producer from Dumas, Texas and am currently serving as President of NCGA.

One of the most difficult tasks for any corn grower is management of the risks that confront a farm operation day in and day out. The kinds and levels of risks farmers face can vary considerably between commodities and regions. As President of NCGA, I understand well the uniquely different risk management needs across the corn belt from east to west. What might be a critical program or insurance policy to our grower members in Iowa or Minnesota may not the case for another grower member here in Texas or hundreds of miles away in Maryland. So, I want to assure you that I recognize and appreciate the enormous difficulty of crafting farm policy and legislation that can adequately meet the diverse needs of U.S. farmers and ranchers and ensure that the interests of the American taxpayers are well served.

In our view, the Congress has listened to U.S. producers and taken positive action in recent years to address some of our more pressing needs. One of the first major steps to improve the farm safety net was the adoption of reforms to the federal crop insurance program with the passage and enactment of the Agriculture Risk Protection Act of 2000 (ARPA). By committing significantly greater financial resources to premium subsidies, we have seen increases in producer participation, percentage of acres covered, and purchases of higher levels of buy-up coverage.

Another example of what additional premium subsidies can do for federal crop insurance participation can be found in the Agriculture Management Assistance section of ARPA. A decision earlier this year by the Secretary of Agriculture to change the program's direction and make available $15 million in supplemental subsidies to 15 underserved states for buy up coverage resulted in a remarkable increase of $131 million in liability protection. Following consecutive years of drought, this financial assistance was welcome relief to producers hurt by severe, repetitive crop losses. NCGA is extremely disappointed that the Fiscal Year 2004 Agriculture Appropriations Conferees have taken away the Secretary's authority and flexibility to provide this kind of help when producers most need it. We believe allocating $17 million of the authorized funding of $20 million exclusively for risk management conservation projects and organic certification is neither prudent nor fair.

Over the past few years, the federal crop insurance program has enabled many producers to continue farming who otherwise would not have been able to withstand the financial losses that have resulted from ongoing drought conditions and other weather related disasters. Indemnity payments in excess of $7 billion for the 2001 and 2002 crop years have made a real difference to growers who are already operating with slim profit margins. Add the $3.5 billion in premium support that enables growers to purchase this protection and you can understand why federal crop insurance has become such an important component of the farm safety net.

The Texas Corn Producers and NCGA appreciate the progress of federal crop insurance, but we also recognize that even with recent reforms, too many growers who have exited farming often point to the lack of effective insurance coverage as a contributing factor. It is a reminder that we need to continue our efforts to build on the successes and focus on how we can further refine the program to address its shortcomings.

Among the primary concerns for Texas Corn Producers and NCGA is adequate protection against repetitive years of crop losses. We have recognized for some time now that many crop insurance participants who experience shallow, but significant crop losses in back to back years can find themselves in no man's land. For example, growers with typical buy-up coverage who have lost 15 to 25 percent of their crop most likely cannot file a loss claim nor would they qualify under today's traditional crop disaster program. In Texas, our high variable costs of production have been particularly acute in recent years due to rising natural gas prices. The margins are thin that any weather problem impacting yield has dramatic consequences. Although a grower would normally be able to sustain a shallow crop loss for one year, two or three consecutive years with similar yield results can seriously erode net farm income and equity.

NCGA has also noted along with other farm groups, that repetitive and multi-year crop losses adversely impact a grower's average production history, and consequently the value of liability coverage. However, we want to strongly encourage the consideration of innovative solutions that go beyond artificial adjustments to T yields and the APH. We believe that addressing this chronic problem in such a limited manner is short sighted, risks ill-advised planting decisions, and invites the unintended consequences of higher premiums for producers where the incidence of crop losses has a much lower probability.

The failure to address erosion of indemnity benefits caused by multi-year losses undermines the growth in crop insurance participation as well as the long term goal of reducing the need for ad-hoc disaster assistance. One potential solution would be a supplemental insurance product that covers a producer's deductible when two years of consecutive years of crop losses exceed a predetermined percentage of average production history. Another recommendation is expansion of the Group Risk Income Protection (GRIP) that until recently, was limited to five states; Illinois, Indiana, Iowa, Michigan, and Ohio. The Texas Corn Producers and NCGA are very pleased that corn growers in those counties in Texas and Wisconsin where Group Risk Protection is currently available will now be able to purchase GRIP. The Federal Crop Insurance Corporation Board has also improved the GRIP plan by approving the Harvest Revenue Option (HRO). GRIP-HRO provides "upside" price protection by valuing crop losses at the harvest price in addition to the GRIP plan's coverage. By offering more producers the option of more affordable protection against widespread area losses, the Board's actions represent a real step in the right direction. NCGA intends to look at a number of new concepts to enhance federal crop insurance and will be conducting a national survey of corn growers on these ideas and other risk management topics later this year.

Realizing that the changes to federal crop insurance we advocate may be difficult to achieve in the near term, the Texas Corn Producers and NCGA urge the members of this subcommittee to consider major reforms to traditional crop disaster assistance that address widespread catastrophic crop losses. NCGA first addressed this issue last year in response to last year's drought by proposing a new program that would deliver aid more effectively and equitably without penalizing participants in the federal crop insurance program. Our Disaster Task Force recognized that the Agriculture Risk Protection Act approved three years ago is now part of a comprehensive, but very different farm safety net because of the new counter cyclical payment program. Secondly, the Task Force observed that traditional disaster aid programs have targeted disproportionate payments to growers with large, insurable yield losses, but growers could still lose up to 35 % of their expected crop, sustain significant financial losses, and not qualify for any assistance.

NCGA applauds Rep. Sam Graves for introducing legislation earlier this year to reform ad hoc crop disaster aid. The Companion Disaster Assistance Program Act (CDAP) would compliment federal crop insurance by providing payments more proportionate to the severity of crop losses and covering a portion of the uninsurable deductible rather than duplicating insurance coverage. Under the CDAP plan, disaster payments can be delivered sooner and in a more targeted way because most growers who collect indemnity payments on their insurance policies would be eligible to collect a disaster payment.

Mr. Chairman, I began my remarks by acknowledging the positive impact of Congress' support for federal crop insurance reforms in 2000 and what it means for the farm safety net. The Texas Corn Producers and NCGA again want to recognize the work of Congress and the commitment it made to U.S. agriculture in passing the 2002 Farm Bill. This landmark legislation provides farmers a far more reliable and predictable safety net for farmers with the adoption of the counter cyclical payment program, greater investments in value added opportunities, and even a new energy title. We cannot overemphasize the importance of staying the course and the need for Congress to refrain from reopening the farm bill. The 2002 Farm Bill is a carefully balanced policy that addresses a myriad of pressing needs from adequately funding nutrition programs to expanding conservation efforts. We ask you for your continued support and commitment to this legislation.

Finally, I want to thank you and the Members of this subcommittee again for visiting our great state and taking the time to listen to the issues and concerns that I raised on behalf of the Texas Corn Producers and the National Corn Growers Association.